Principles of Effective Communication in Financial Performance Reporting
**INTRODUCTION**

Effective financial reporting is about more than making sure that the numbers add up, it requires that the figures are communicated to the target audience in a way that is meaningful and understandable to them. This is particularly vital for public service organisations that not only have to prove that they are using public money effectively but have to do so to a varied and wide-ranging audience. Whether reporting is to the general public, elected representatives and board members or regulators the way information is communicated is key to effective reporting.

This guidance builds upon the work carried out by CIPFA as part of its ‘Telling the Story’ consultation of effective reporting and the effective communications principles set out by the Financial Reporting Council as part of its reducing complexity project. The aim of the guidance is to set out a set of principles that can be applied to all financial reporting whether related to budget setting, in year monitoring or the annual report. These principles form the foundations for effective reporting for different sectors and points in the reporting cycle.
REPORTING IN PUBLIC SERVICE ORGANISATIONS

It is often said that accountability is of more importance in the public services than elsewhere. The public has no option but to contribute towards that part of the cost covered by taxation, through national and local taxes and by other means. In these circumstances, it is right that those who spend such resources should display a high level of responsibility, that they should account for their actions and that they should be held accountable. As a minimum that entails maintaining a high standard of probity in their dealings, and increasingly it has implications for the efficiency and value for money that they achieve.

Whilst for much reporting the concentration is likely to be on the activity of the organisation itself, public service organisations are increasingly working in partnership and taking area leadership type roles. Where there are significant partnerships or place shaping activities carried out, public service organisations will need to give consideration to whether reporting should be expanded to include such activities.

There are a number of reasons why reporting should take place. They include:

- to explain the ambitions of the organisation for its citizens and how it is committed to their delivery
- to indicate how well management employs and safeguards resources in the achievement of its objectives;
- to hold those charged with governance of the authority to account for the performance of the authority;
- to inform stakeholders of the activities of the authority and encourage them to push for the information they require; and
- to provide sufficient comfort to regulators that authorities are acting within their boundaries.

Whilst, in line with the reasons for reporting set out above, this guidance focuses on external facing reporting, the principles apply equally to internal reporting. Much internal reporting, and in particular reporting to elected bodies and boards, is received by non finance specialists and the same considerations apply. Indeed, given increasing freedom of information requirements and the impact of new forms of communication, it is increasingly the case that internal reports are viewed by external stakeholders and care needs to be taken that the right message is being conveyed.
THE PRINCIPLES OF EFFECTIVE REPORTING

Concerns about the increasing complexity and decreasing relevance of financial reports have been growing in recent years. Many people point to their increasing length and detail, and the regulations that govern them, as evidence that we have a problem. Others are more worried that reports no longer reflect the reality of the underlying businesses, with key messages lost in the clutter of lengthy disclosures and regulatory jargon.

These concerns have been raised not just by those within the public services but also in the corporate sector and led to the FRC’s ‘Reducing Complexity’ project. This project has led to the development of eight proposed principles for reducing complexity, four for regulators in developing new standards and four related to effective communication. These principles reflect heavily the principles for effective reporting identified by CIPFA in its work on ‘Telling the Story’. It is these four principles that are at the heart of this guidance.

Whilst these principles were developed with annual reports in mind, they are equally applicable across the whole spectrum of financial reporting of which these are only a small part.

Four Principles Of Effective Reporting

To be effective financial reporting should be:

1. Focused
Highlight important messages, transactions and policies and avoid distracting readers with immaterial clutter.

2. Open and honest
Provide a balanced explanation of the results – the good news and the bad.

3. Clear and understandable
Use plain language, only well defined technical terms, consistent terminology and an easy-to-follow structure.

4. Interesting and engaging
Get the point across with a report that holds the reader’s attention.


PRINCIPLE 1 – FOCUSED REPORTING

Focussed reporting highlights important messages and transactions and avoids distracting readers with immaterial clutter. Part of the problem is that materiality is hard to define and seems to mean different things to different people. Materiality is based on both quantitative and qualitative factors, and the qualitative aspect is especially difficult to define. Many definitions of ‘material’ try to divide information into two discrete categories: material and immaterial. In reality, there are items that are obviously material, those that are obviously immaterial – and a grey area in between. Items in the grey area will require consideration and judgement on whether they need to be disclosed. Preparers should always ask themselves what information does this add to the users understanding of the organisation, if the answer is nothing or very little then the information should be excluded.

Focus is not merely about removing superfluous information within reports but ensuring that reporting provides the information that readers need to understand both the financial figures themselves but also the context within which the organisation is operating. Best practice for public service organisations sets out four areas that should be covered across the spectrum of different reports to achieve effective financial reporting:

- **service delivery environment** - a clear explanation of the impact of changes and trends in the regulatory, political and macro environment, including social, economic and environmental factors, and the organisation’s response to them

- **strategy and structure** - clear statements of goals and objectives along with information on how these objectives are supported by the organisation’s structure, an understanding of stakeholders and their concerns and interests, governance and accountability arrangements and the framework for high level identification, monitoring and management of risks

- **managing delivery** - clarity of disclosure around the processes, controls and tools that management employ to ensure that the organisation’s resources and competencies are directed towards the achievement of key goals and objectives

- **performance** - clear statements and explanations, supported by quantified data where appropriate, of the organisation’s performance against its goals and objectives both financial and non-financial.

The level of information under each heading will depend upon both the audience and type of report in question. An annual report aimed at the general public will need far greater contextual information than an in year monitoring report to the board. The table below explores the needs of the different categories of key users of public service organisation accounts and provides a basis for determining the focus of information for their needs. These users range from the informed users common to corporate reporting to less informed users that may find more detailed reporting less accessible.
<table>
<thead>
<tr>
<th>Less Informed Users</th>
<th>Informed Users</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For communities</td>
</tr>
<tr>
<td></td>
<td>Commenting on how need is being met including achievement of a ‘sense of place’, including sustainability, social inclusion and stewardship.</td>
</tr>
<tr>
<td></td>
<td>For service recipients</td>
</tr>
<tr>
<td></td>
<td>Commenting on the services provided and the implications and value for money of levels of financial and other resource inputs</td>
</tr>
<tr>
<td></td>
<td>Reviewing the organisation’s actual service delivery against its targets</td>
</tr>
<tr>
<td></td>
<td>Reporting on the views of regulators.</td>
</tr>
<tr>
<td></td>
<td>For resource providers, including elected bodies and boards</td>
</tr>
<tr>
<td></td>
<td>Assessing how resources have been deployed in the achievement of objectives.</td>
</tr>
<tr>
<td></td>
<td>For partners</td>
</tr>
<tr>
<td></td>
<td>To provide an overview of how partnerships fit within the overall organisation and are contributing to the achievement of objectives.</td>
</tr>
<tr>
<td></td>
<td>For government</td>
</tr>
<tr>
<td></td>
<td>To review implications for national objectives.</td>
</tr>
<tr>
<td></td>
<td>For regulators</td>
</tr>
<tr>
<td></td>
<td>To provide comfort that the organisation is operating within boundaries.</td>
</tr>
</tbody>
</table>

Given the wide range of users and their varying needs it is important to consider whether all the varying needs can be met within a single report or whether a number of different reports need to be produced based on the same core information.

The key to achieving focus is to concentrate on the information that the user needs to get a proper picture of the organisation and its financial position whilst avoiding unnecessary clutter and superfluous information.
PRINCIPLE 2 – OPEN AND HONEST REPORTING

Reporting should provide a balanced explanation of performance – the good news and the bad. Users want a balanced commentary, which provides fair discussion of strengths and weaknesses. Where strengths and weaknesses are reported they should be supported by an open discussion of the factors influencing them and their impact on future performance. The presentation of reports should give equal weight to both and not attempt to hide weaknesses within the text.

Where adjusted measures are used in reports, particularly in annual reports, these need to be reconciled to audited figures. Where alternative measures are not properly reconciled this leads to the suspicion that organisations are trying to hide poor performance. At all times any information set in a report should be verifiable, unbiased and complete.

It is important that results are comparable over time. Reports do not have to be identical to the prior period but should avoid changing key performance indicators and segments regularly, so that users have difficulty judging how the current performance compares to previous periods. If change is needed it is important that users understand why change was necessary and the impact it has had on the information.

For public service organisations, for key reports, comparability between organisations is particularly important and helpful to users in judging effective use of public money. Where such comparisons are used they should place the organisation into context, for example by contrasting its performance with that of similar organisations.

To facilitate such comparisons, it is of course necessary for there to be general agreement as to how the data should be compiled, which, ideally, does not change from one year to the next. That is relatively straightforward where nationally prescribed reports are involved, but may become increasingly difficult as more freedoms are granted. To avoid problems as far as possible, where available, authorities should follow agreed definitions, such as those found in Accounting Codes of Practice.

If no such agreement is in place, they should seek to avoid changing definitions over time, but if that is unavoidable must make clear to the user the impact. Direct comparisons, whether with other bodies or earlier time periods, should only be made if there is sufficient consistency of definition.
PRINCIPLE 3 – CLEAR AND UNDERSTANDABLE

The concept of clear and understandable reporting recognises that to provide an effective channel of communication, the user must be able to appreciate the message that the organisation intends to convey. While this may be thought self-evident, in framing reports organisations should consider how readily their meaning will be appreciated by potential users. This will be especially relevant where they contain technical content or are couched in terms not in everyday use.

Clear and understandable reporting is particularly challenging for public service organisations where there is such a divergent range of stakeholders and a requirement to communicate with all both internally and externally. Public Sector Organisations may need to give consideration to whether they need to provide additional education and support to users, particularly to elected representatives/boards and citizens, to help them understand financial reporting.

Financial reports should use plain language, only well defined technical terms, consistent terminology and an easy-to-follow structure.
Financial reporting should get the point across with a report that holds the reader’s attention. It can be easy to forget that users of reports are people too: the more interesting and engaging the report, the better it will communicate important messages to users.

There is currently a significant debate underway about the future of electronic based reporting through mediums such as the internet. There is a distinct argument that, in looking to the future, public service organisations should be moving to an environment when reporting can provide a snapshot in time at whatever point the user requires it and in a format and level of detail geared to their needs.

Regular key published reports (whether paper based or electronic), however, still have an important role in providing a comprehensive summary of all activity and a prompt to stakeholders to consider the information they require and how that can be sourced. In effect the published reports would be a gateway into the new forms of continuous reporting as these develop.

Electronic media does present an opportunity to make financial reporting easier to use. Electronic communication has the potential for a ‘drill-down’ approach to reporting which allows users to start out with a high-level summary and progressively drill-down to more detail. This can improve the accessibility of reports by not swamping readers in too much detail at the outset but does require organisations to design electronic information and systems appropriately.

For public service organisations it should also be remembered that, at least in the medium term, paper based reporting may continue to be required to reach those stakeholders who do not have access to or the skills to exploit the new technologies. In terms of reaching stakeholders who may otherwise be marginalised publication of key reports during the year can provide a focus for the provision of accessible information in other formats and languages.

The Report Leadership initiative suggest the following ideas for making reports more interesting and engaging, and are felt to represent good practice:

- Try to write a compelling story using a narrative sequence with a beginning, a middle and an end
- Present key messages in pull quotes, titles, bullet points, sub-headings etc
- Don’t hide important information at the back of the report
- Use navigational aids on each page/spread
- Provide information visually through graphical summaries
- Provide a short summary of information that is included in each section of the report
- Include clear titles and sub-headings, and a strong typographic hierarchy.
SUMMARY

It is often said that accountability is of more importance in public sector organisations than elsewhere. The public has no option but to contribute towards that part of the cost covered by local taxation, through the council tax and by other means. In these circumstances, it is right that those who spend such resources should display a high level of responsibility, that they should account for their actions and that they should be held accountable. As a minimum that entails maintaining a high standard of probity in their dealings, and increasingly it has implications for the efficiency and value for money that they achieve.

Tracking accountability is becoming more complex, as partnerships become more common and the number and type of public bodies increase. Performance measures and strategic objectives based on social outcomes require collective efforts. The challenge will be to report on these multi-faceted structures in a way that is intelligible and maintains accountability.

Effective financial reporting attempts to deal with these challenges by ensuring that reporting is aimed at the needs of the user and is focussed, open and honest, clear and understandable and interesting and engaging.